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MEMORANDUM

2001 JUN 27 P 3:12

AZ CORP COMMISSION
DOCUMENT CONTROL

TO: Docket Control

FROM: Deborah R. Scott
Director
Utilities Division

DATE: June 26, 2001

RE: STAFF REPORT FOR ROCKY LAKE WATER COMPANY'S APPLICATION FOR
A PERMANENT RATE INCREASE (DOCKET NO. W-01498A-01-0223)

Attached is the Staff Report for Rocky Lake Water Company's application for a permanent rate increase. Staff recommends approval of the rates and charges presented in Schedule 4 of this report. Staff further recommends that a hearing not be held in this matter.

DRS:ENZ:jbc

Originator: Elena N. Zestrijan

Attachment: Original and Eleven Copies

Arizona Corporation Commission

DOCKETED

JUN 27 2001

DOCKETED BY	
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

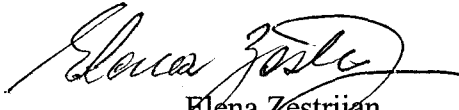
**ROCKY LAKE WATER COMPANY
DOCKET NO. W-01498A-01-0223**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

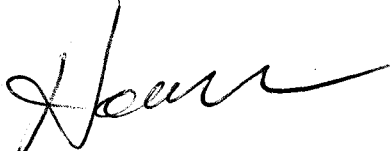
June 2001

STAFF ACKNOWLEDGMENT


The Staff Report for Rocky Lake Water Company, Docket No. W-01498A-01-0223 was the responsibility of the Staff members listed below. Elena Zestrijan was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's recommended revenue requirement, and rate base and rate design. Lyndon Hammon was responsible for the engineering and technical analysis. Refugio Lopez was responsible for reviewing the Arizona Corporation Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Elena Zestrijan
Auditor II



Lyndon Hammon.
Utilities Engineer



Refugio Lopez
Consumer Service Specialist

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FACT SHEET

Company:

Current Rates: Decision No. 55452, dated March 4, 1987

Type of Ownership: "C" Corporation

Location: Junction of highways 191 and 366 (Swift Trail Junction), which is about 10 miles south of Safford, within Graham County, Arizona. Not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: March 14, 2001

Current Test Year Ended: September 30, 2000

Prior Test Year Ended: December 31, 1985

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Proposed Rates</u>
Monthly Minimum Charge			
Based on 5/8 X 3/4 – inch meter	\$ 8.60	\$11.00	\$ 9.00
Gallons in Minimum	1,000 -	0	- 0
Commodity Charge			
Excess of minimum, per 1,000 gallons:			
From 1 to 5,000 gallons	\$1.20	\$1.25	\$1.35
From 5,001 to 20,000 gallons	\$1.20	\$1.25	\$1.50
Over 20,000 gallons	\$1.20	\$1.25	\$1.65
Typical residential bill (Based on median usage of 6,574 gallons)	\$15.29	\$19.22	\$18.11

Customers:

Number of customers in prior Test Year (12/31/85) 168

Number of customers in the current Test Year (9/30/00): 407

Current Test Year customers by meter size:

5/8 X 3/4 – inch	407
3/4 – inch	0
1 – inch	0
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0
8 – inch	0

Seasonal customers: N/A

Customer notification mailed: March 12, 2001

Number of customer concerns since rate application filed: 8

Percentage of complaints to customer base: 2.0%

Summary of Filing

Based on Test Year results, as adjusted by Staff, Rocky Lake Water, ("Rocky Lake" or "Company") realized an operating loss of \$464 on an Original Cost Rate Base ("OCRB") of \$32,142 for no rate of return (Schedule 1).

The Company's proposed rates would produce a revenue level of \$115,760 and an operating income of \$6,330, for a 36.64 percent rate of return on an OCRB of \$17,276. The Company's proposed rates would increase the typical residential bill with a median usage of 6,574 gallons, from \$15.29 to \$19.22 for an increase of \$3.93, or 25.7 percent (Schedule 5).

Staff's proposed rates would produce revenues of \$116,201 and an operating income of \$6,790 on an OCRB of \$32,142, resulting in an 21.12 percent rate of return. Staff's recommended rates would increase the typical residential bill with a median usage of 6,574 gallons, from \$15.29 to \$18.11 for an increase of \$2.82, or 18.5 percent.

The Company operates five different well sites. During the Test Year ended September 30, 2000, Rocky Lake provided potable water service to a total of 407 metered customers. All customers are served by 5/8 x 3/4 -inch meters.

Background

Rocky Lake's last rate increase was granted in Decision No. 55452, dated March 4, 1987. At that time, the Company had approximately 168 connections.

As of the end of the Test Year, the Company had 407 connections or an increase of 239 connections. On December 15, 1992, Sequoia Industries, Ltd., a holding company, purchased the Company's stock. First National Management, Inc., has been managing the Company since the purchase.

Consumer Services

A review of Consumer Services records shows two informal complaints, six opinions and no inquiries filed in the past three years. One informal complaint was logged in July 1998 and the other was received June 1999. Both complaints were regarding low water pressure and were satisfactory resolved.

Out of the six opinions received by Consumer Services, one consumer simply expressed that he would like to see the Company implement an automatic payment plan. The other five opinions included opposition to the rate increase due to poor water pressure during the summer, support of an increase but opposed to the high increase that is currently proposed, and opposition

to the increase due to poor water quality. The other two concerns were general statements expressing opposition to the rate increase. No letters were received from consumers.

A sample of the water bill provided by the Company shows that it contains the minimum bill information required in the Arizona Administrative Code R14-2-409.B.2.

Decision No. 58785, dated September 21, 1994, approved the Company's Cross-Connection Control Tariff.

Staff recommends that this application be processed without a public hearing due to the low number of consumer opinions.

Engineering Analysis

The Company's plant facilities were inspected on May 16, 2001. For a description of the water system, please refer to attached Engineering Report.

Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program ("MAP"). Annual testing expenses should be adjusted to the level described in Table I of the attached Engineering Report.

Staff recommends that Rocky Lake implement depreciation rates consistent with those found in Table II of the attachment.

Staff recommends that Rocky Lake install well meters at each of the five active wells, no later than 12 months from the resulting Decision in this rate case. The estimated installation cost is \$5,000.

Compliance

Rocky Lake is current on its property tax payments and in its remittance of Sales and Use Tax.

ADEQ has stated that the Company is delivering water that does not exceed any Maximum Contaminant Levels ("MCL") and meets the Safe Drinking Water Act ("SDWA") quality standards.

Rocky Lake is not within any AMA and consequently is not subject to reporting and conservation rules.

Rate Base Adjustments

Staff's adjustments increased the Company's proposed Rate Base by \$14,866 to \$32,142 (see Schedule 2, Page 1).

Adjustment A decreased Accumulated Depreciation by \$11,596. Staff's recommended balance of \$266,478 was derived by adding depreciation expense for the intervening years (1986 to 2000) of \$165,080 to the prior Commission approved balance of \$101,398 (see schedule 2, Page 3).

Adjustment B decreased Contributions in Aid of Construction ("CIAC"), to reflect the ending balance in the last rate case of \$80,962 for this account.

Adjustment C decreased amortization of CIAC by \$3,517 consistent with Staff's adjustment to CIAC and an amortization rate of 5.0 percent.

Adjustment D reduced working capital allowance by \$178 consistent with Staff's adjustments to operating expenses.

Operating Revenue Adjustments

The bill counts submitted with the instant application matched the metered water revenues. Therefore, no adjustment was necessary (see Schedule 3, Page 1).

Operating Expenses Adjustments

Staff made nine adjustments to Operating Expenses resulting in a net decrease of \$7,278.

Staff's adjustment A reclassified \$694 to Repairs and Maintenance from Miscellaneous expense to reflect the appropriate expense category for invoices related to plant repairs.

Staff's adjustment B to Office Supplies and Expense, disallowed \$211, of unsubstantiated expense.

Staff's adjustment C increased Outside Services by \$3,366. This adjustment consisted of a reclassification of \$3,348 from Miscellaneous expense for computer, accounting and legal services. Staff also reduced this expense by \$18 to reflect audited amounts.

Staff's adjustment D decreased Water Testing by \$1,174 to reflect the Staff engineer's recommended expense level of \$2,925.

Staff's adjustment E increased Rents expense by \$30 as a result of audit findings.

Staff's adjustment F decreased Miscellaneous Expense by \$4,126. This adjustment consisted of a reclassification of \$694 to Office Supplies and Expense and reclassification of \$3,348 to Outside Services.

Staff's Adjustment G decreased Depreciation Expense by \$2,052 consistent with the authorized 5.0 percent depreciation rate. Staff's recommended depreciation rates on a going forward basis result in an expense level of \$6,120.

Adjustment H decreased Property Tax expense by \$4,350 to reflect the Test Year property tax bill instead of a two-year payment.

Adjustment I increased Income Tax to reflect the minimum amount of State income tax expense.

Rate of Return

There are several methods to arrive at a fair and reasonable rate of return. Cost of capital studies, cash requirements analysis and debt service coverage ratios are the most common methodologies used. The Company is classified as a Class D water utility and, as such, is not required to file a cost of capital study to arrive at its proposed rate of return.

Staff based its recommended rates on the Company's cash requirements. Staff's recommended revenue level would provide a positive cash flow of \$12,910 after operations and maintenance.

The Company is proposing an increase in revenues of approximately \$14,072 over Test Year revenues or 13.8 percent. Staff is recommending an increase of approximately \$14,513 or 14.3 percent over Test Year revenues. This translates to a rate of return of 21.12 percent.

Rate Design

The Company's proposed and Staff's recommended rate design does not include any gallons in the minimum monthly charge.

The Company's proposed rate design is a single block declining rate structure. This type of rate design results in a decrease in the average cost of water as usage increases. Staff's

recommended rate design is composed of a three-tiered inverted block rate structure. This type of rate structure results in a higher cost for water as usage increases. Staff believes that its recommended rate design is more compatible with conservation efforts and should be adopted.

The Company is not requesting service line and meter installation charges. Staff concurs with Company's request.

Staff Recommendations

Staff recommends approval of its rates and charges as shown in Schedule 4.

Staff further recommends approval of its rates and charges without a hearing.

Staff further recommends that Rocky Lake install well meter at each of the five active wells, no later than 12 months from the effective date of a final order in this rate case.

Staff further recommends that in addition to the collection of its regular rates and charges, Rocky Lake shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409.D.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$100,358	\$100,358	\$114,430	\$114,871
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,330	1,330	1,330	1,330
Total Operating Revenue	\$101,688	\$101,688	\$115,760	\$116,201
Operating Expenses:				
Operation and Maintenance	\$97,492	\$96,071	\$97,492	\$96,071
Depreciation	2,633	581	2,633	6,120
Property & Other Taxes	9,800	5,450	9,800	5,450
Income Tax	(495)	50	(495)	1,770
Total Operating Expense	\$109,430	\$102,152	\$109,430	\$109,411
Operating Income/(Loss)	(\$7,742)	(\$464)	\$6,330	\$6,790
Rate Base O.C.L.D.	\$17,276	\$32,142	\$17,276	\$32,142
Rate of Return - O.C.L.D.	-44.81%	-1.44%	36.64%	21.12%
Times Interest Earned Ratio (Pre-Tax)	-84.05	-4.22	-84.05	143.87
Debt Service Coverage Ratio (Pre-Tax)	-57.18	1.70	-57.18	149.80
Operating Margin	-7.61%	-0.46%	5.47%	5.84%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

Rocky Lake Water Company

Docket No. W-01498A-01-0223

Test Year Ended

30-Sep-00

Schedule 2

Page 1 of 3

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$338,338	\$0	\$338,338
Less:			
Accum. Depreciation	278,074	(11,596) (A)	266,478
Net Plant	\$60,264	\$11,596	\$71,860
Less:			
Plant Advances	\$17,827	\$0	\$17,827
Meter Deposits	16,794	0	16,794
Total Advances	\$34,621	\$0	\$34,621
Contributions Gross	\$87,927	(\$6,965) (B)	\$80,962
Less:			
Amortization of CIAC	68,285	(3,517) (C)	64,768
Net CIAC	\$19,642	(\$3,448)	\$16,194
Total Deductions	\$54,263	(\$3,448)	\$50,815
Plus:			
1/24 Power	\$456	\$0	\$456
1/8 Operation & Maint.	10,819	(178) (D)	10,642
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$11,275	(\$178)	\$11,097
Rate Base	\$17,276	\$14,866	\$32,142

Explanation of Adjustment:

A - See Schedule 2 page 3.

B - To reflect Staff's recommended balance.

C - To record Amortization of CIAC.

D - To reflect Staff's adjustments to operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,000	\$0	\$1,000
302 Franchises	0	0	0
303 Land & Land Rights	8,108	0	8,108
304 Structures & Improvements	0	0	0
307 Wells & Springs	43,472	0	43,472
311 Pumping Equipment	63,962	0	63,962
320 Water Treatment Equipment	2,107	0	2,107
330 Distribution Reservoirs & Stan	30,203	0	30,203
331 Transmission & Distribution M	162,489	0	162,489
333 Services	0	0	0
334 Meters & Meter Installations	21,565	0	21,565
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipm	0	0	0
340 Office Furniture & Equipment	4,118	0	4,118
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipm	1,079	0	1,079
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	235	0	235
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$338,338	\$0	\$338,338

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$278,074
Accumulated Depreciation - Per Staff	266,478 A
Total Adjustment	(\$11,596)

Explanation of Adjustment:

A -	Accumulated Depreciation balance as of December 31, 1985	\$ 101,398
	Plus:	
	Depreciation Expense 1986	12,129
	Depreciation Expense 1987	12,340
	Depreciation Expense 1988	10,848
	Depreciation Expense 1989	13,324
	Depreciation Expense 1990	13,761
	Depreciation Expense 1991	13,960
	Depreciation Expense 1992	14,001
	Depreciation Expense 1993	14,017
	Depreciation Expense 1994	10,746
	Depreciation Expense 1995	14,826
	Depreciation Expense 1996	9,106
	Depreciation Expense 1997	14,345
	Depreciation Expense 1998	3,878
	Depreciation Expense 1999	3,170
	Depreciation Expense 2000	4,629
		<u>165,080</u>
	Staff Balance as of September 30, 2000	<u>\$ 266,478</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$100,358	\$0	\$100,358
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	1,330	0	1,330
Total Operating Revenue	\$101,688	\$0	\$101,688
Operating Expenses:			
601 Salaries and Wages	\$15,600	\$0	\$15,600
610 Purchased Water	0	0	0
615 Purchased Power	10,938	0	10,938
618 Chemicals	0	0	0
620 Repairs and Maintenance	2,254	694 A	2,948
621 Office Supplies & Expense	3,096	(211) B	2,885
630 Outside Services	52,159	3,366 C	55,525
635 Water Testing	4,099	(1,174) D	2,925
641 Rents	330	30 E	360
650 Transportation Expenses	10	0	10
657 Insurance - General Liability	2,287	0	2,287
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	667	0	667
675 Miscellaneous Expense	6,052	(4,126) F	1,926
403 Depreciation Expense	2,633	(2,052) G	581
408 Taxes Other Than Income	1,394	0	1,394
408.11 Property Taxes	8,406	(4,350) H	4,056
409 Income Tax	(495)	545 I	50
Total Operating Expenses	\$109,430	(\$7,278)	\$102,152

OPERATING INCOME/(LOSS)	(\$7,742)	\$7,278	(\$464)
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Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	98	0	98
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$98)	\$0	(\$98)

NET INCOME/(LOSS)	(\$7,840)	\$7,278	(\$562)
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STAFF ADJUSTMENTS

A - REPAIRS and MAINTENANCE - Per Company Per Staff	\$2,254 2,948	<u>\$694</u>
To reclassify from Miscellaneous		
B - OFFICE SUPPLIES and EXPENSE - Per Company Per Staff	\$3,096 2,885	<u>(\$211)</u>
To disallow unsubstantiated expense.		
C - OUTSIDE SERVICES - Per Company Per Staff	\$52,159 55,525	<u>\$3,366</u>
To reclassify from Miscellaneous		
To adjust to audit findings		
	\$3,348 \$18	
D - WATER TESTING - Per Company Per Staff	\$4,099 2,925	<u>(\$1,174)</u>
To reflect Staff Engineer recommendations.		
E - RENTS - Per Company Per Staff	\$330 360	<u>\$30</u>
To adjust to audit findings.		
F - MISCELLANEOUS EXPENSE - Per Company Per Staff	\$6,052 1,926	<u>(\$4,126)</u>
To reclassify to Outside Services		
To reclassify to Repairs/Maintenance		
To disallow unsubstantiated expense.		
	(\$3,348) (\$694) (\$84)	

STAFF ADJUSTMENTS

G -	DEPRECIATION - Per Company	\$2,633	
	Per Staff	581	(\$2,052)

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$338,338
Less: Non Depreciable Plant	9,108
Fully Depreciated Plant	232,850
Depreciable Plant	\$96,380
Times: Depreciation Rate	5.00%
Credit to Accumulated Depreciation	\$4,629
Less: Amort. of CIAC* @ 5.00%	4,048
Pro Forma Annual Depreciation Expense	\$581

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$80,962
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$80,962
Times: Staff Proposed Amortization Rate	5.00%
Amortization of CIAC	\$4,048

H -	PROPERTY TAXES - Per Company	\$8,406	
	Per Staff	4,056	(\$4,350)

To reflect Test Year Property Tax amount
instead of two years payment.

I -	INCOME TAX - Per Company	(\$495)	
	Per Staff	50	\$545

To record minimum amount of State income tax expense.

RATE DESIGN

	Present	-Proposed Rates-	
	Rates	Company	Staff
<u>Monthly Usage Charge</u>			
5/8" x 3/4" Meter	\$8.60	\$11.00	\$9.00
3/4" Meter	0.00	16.50	13.50
1" Meter	0.00	27.50	22.50
1½" Meter	0.00	55.00	45.00
2" Meter	0.00	88.00	72.00
3" Meter	0.00	165.00	135.00
4" Meter	0.00	275.00	225.00
6" Meter	0.00	714.00	450.00
Gallons Included in Minimum	1,000	0	0
Excess of Minimum - per 1,000 Gallons (0-5,000 Gallons)	\$1.20	\$1.25	\$1.35
Excess of Minimum - per 1,000 Gallons (5001-20,000 Gallons)	\$1.20	\$1.25	\$1.50
Excess of Minimum - per 1,000 Gallons (Over 20,000 Gallons)	\$1.20	\$1.25	\$1.65
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$500.00	\$0.00	\$0.00
3/4" Meter	535.00	0.00	0.00
1" Meter	660.00	0.00	0.00
1½" Meter	1,025.00	0.00	0.00
2" Meter	1,315.00	0.00	0.00
3" Meter	0.00	0.00	0.00
4" Meter	0.00	0.00	0.00
6" Meter	0.00	0.00	0.00
<u>Service Charges</u>			
Establishment	\$10.00	\$30.00	\$30.00
Establishment (After Hours)	10.00	40.00	40.00
Reconnection (Delinquent)	10.00	30.00	30.00
Meter Test (If Correct)	20.00	45.00	45.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	10.00	15.00	15.00
Deferred Payment	1.50%	1.50%	****
Meter Re-Read (If Correct)	0.00	5.00	5.00
Late Payment	0.00	0.00	1.50%
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	\$0.00	\$0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** 1.50 percent of unpaid monthly balance.

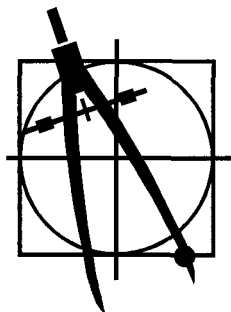
TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 410

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,791	\$19.15	\$23.24	\$4.09	21.4%
Median Usage	6,574	\$15.29	\$19.22	\$3.93	25.7%
<u>Staff Proposed</u>					
Average Usage	9,791	\$19.15	\$22.94	\$3.79	19.8%
Median Usage	6,574	\$15.29	\$18.11	\$2.82	18.5%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$8.60	\$11.00	27.9%	\$9.00	4.7%
1,000	8.60	12.25	42.4%	10.35	20.3%
2,000	9.80	13.50	37.8%	11.70	19.4%
3,000	11.00	14.75	34.1%	13.05	18.6%
4,000	12.20	16.00	31.1%	14.40	18.0%
5,000	13.40	17.25	28.7%	15.75	17.5%
6,000	14.60	18.50	26.7%	17.25	18.2%
7,000	15.80	19.75	25.0%	18.75	18.7%
8,000	17.00	21.00	23.5%	20.25	19.1%
9,000	18.20	22.25	22.3%	21.75	19.5%
10,000	19.40	23.50	21.1%	23.25	19.8%
15,000	25.40	29.75	17.1%	30.75	21.1%
20,000	31.40	36.00	14.6%	38.25	21.8%
25,000	37.40	42.25	13.0%	46.50	24.3%
50,000	67.40	73.50	9.1%	87.75	30.2%
75,000	97.40	104.75	7.5%	129.00	32.4%
100,000	127.40	136.00	6.8%	170.25	33.6%
125,000	157.40	167.25	6.3%	211.50	34.4%
150,000	187.40	198.50	5.9%	252.75	34.9%
175,000	217.40	229.75	5.7%	294.00	35.2%
200,000	247.40	261.00	5.5%	335.25	35.5%



**Engineering Report
For
Rocky Lake Water Company**

Docket No. W-01498A-01-0223

EXECUTIVE SUMMARY

- I. DEQ reported TOTAL COMPLIANCE with the state drinking water rules. DEQ certified that the water system is delivering water that does not exceed any maximum contaminant level and meets the water quality standards of the Safe Drinking Water Act.**
- II. Water testing expenses are based upon participation in the DEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table I (\$ 2,925). (See §D of report for discussion and details.)**
- III. Engineering Staff recommends that Rocky Lake Water Co. change its depreciation rate from an overall composite rate of 5.0 percent to specific depreciation rates by NARUC category. (See §H and Table II for a discussion and a tabulation of the recommended rates.)**
- IV. Staff recommends that Rocky Lake install well meters at each of the five active wells. The estimated installation cost is \$5,000. It is recommended that the improvements be completed no later than 12 months from the effective date of a final order in this rate case.**

A. LOCATION OF COMPANY

Rocky Lake Water Company ("Company") is located at the junction of highways 191 and 366 (Swift Trail Junction), which is about 10 miles south of Safford. Figure 1 describes the certificated area of the water company within Graham County.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on May 16th, 2001, by Lyndon Hammon, in the accompaniment of John and Diane Capel, the on site operators and managers of the water system.

The water system consists of five wells at five different well sites and serves a total customer base of 407 residential services. All wells pump directly into the distribution system. At an elevated location, a 200,000 gallon storage tank "floats" on the water system (i.e., the water system is directly pressurized by the static water level in the elevated storage tank). The storage tank is kept filled by well timers and manual controls.

Figure 2 provides a process schematic for the water system.

The water system has adequate storage and well production.

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("DEQ")

DEQ reported TOTAL COMPLIANCE with the state drinking water rules.

DEQ certified that the water system is delivering water that does not exceed any maximum contaminant level and meets the water quality standards of the Safe Drinking Water Act.

D. WATER TESTING EXPENSES

On December 8, 1998, DEQ adopted rules, which provide for a monitoring assistance program ("MAP"). The MAP program was fully implemented in 1999.

The MAP program will provide baseline testing for inorganic chemicals ("IOC"), synthetic organic chemicals ("SOC") and volatile organic chemicals ("VOC") for a cost based on meter size. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons, (approximately 3,300 service connections).

Rocky Lake is subject to mandatory participation in the MAP program. Staff calculated the testing costs based on the following assumptions:

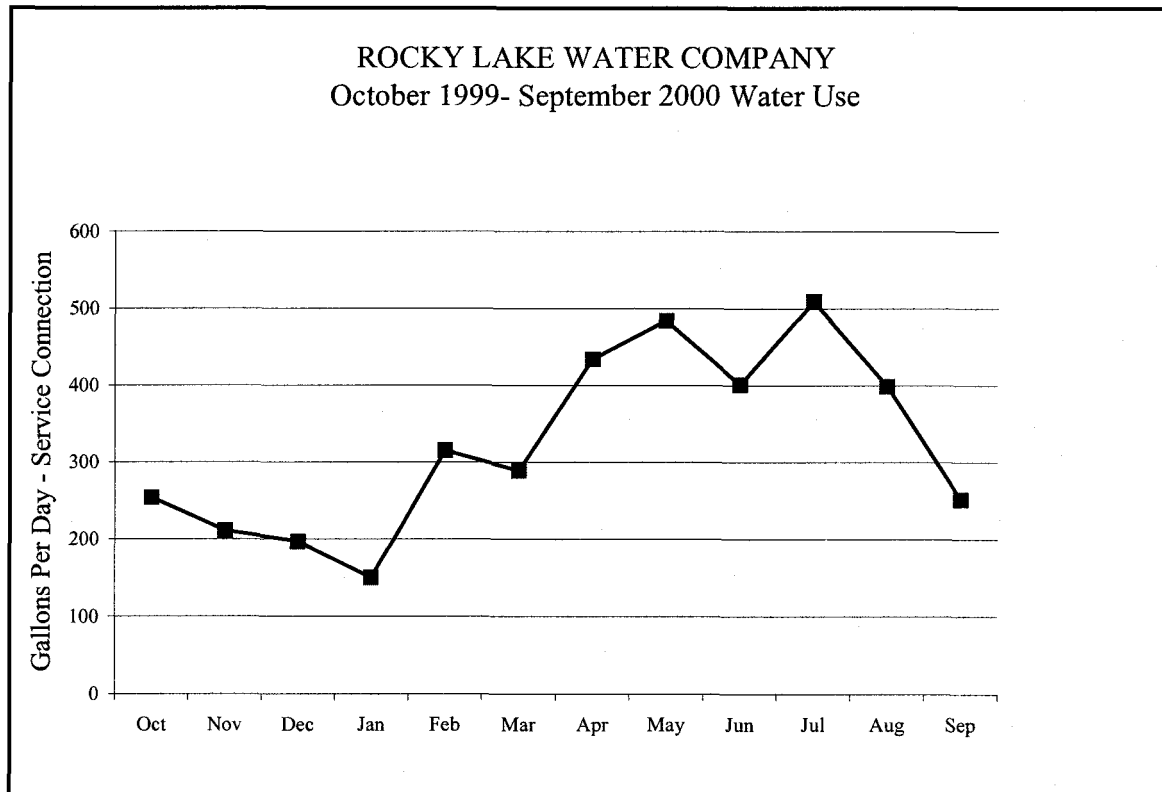
1. MAP will do baseline testing on everything except asbestos, copper, lead, nitrates, nitrites, radio-chemicals, and coliform bacteria.
2. MAP will only perform composite tests on inorganic chemicals. However, it is in the best interest of the Company and its customers to know the basic inorganic quality of each contributing source. Since testing for these parameters does not represent an extraordinary expense, the cost of basic and secondary inorganic chemical analysis for each well is included in the Staff's estimate of monitoring expense.
3. DEQ testing is performed in 3 year compliance cycles. Therefore, monitoring costs are estimated for a 3 year compliance period and then presented as a pro forma expense on an annualized basis.
4. MAP fees were calculated from the DEQ MAP rules and the Company's present meter count.
5. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and 5 points of entry.
6. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assumes compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table I shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount shown in Table I, which is \$ 2,925.

E. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

Rocky Lake is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

F. WATER USE



Water Sold

Based on the information provided by the Company, water use for October 1999 through September 2000 is presented above. The high monthly domestic water use was 509 gal/day-service in July, and the low monthly domestic water use was 150 gal/day-service in January. The average annual use was 308 gal/day-service.

Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Non-account water was calculated to be 2.3 percent, which is within acceptable limits.

Since none of the five wells have well meters, the non-account water was calculated by hour meters at each of the well sites. This method is not precise. Each well should be metered and the individual flow recorded. Therefore, Engineering Staff recommends that Rocky Lake install individual turbine meters on the discharge from each of the wells.

The total estimated installation cost is \$5,000 (i.e., \$1,000 for each well site including the meter, a meter spool, and labor). It is recommended that the improvements be completed no later than 12 months from the effective date of a final order in this rate case.

G. GROWTH

For the past 10 years, annual growth has averaged about 4 percent. The customer base was approximately 410 services at the end of the year 2000.

H. DEPRECIATION RATES

Rocky Lake Water Co., has been using a depreciation rate of 5.00 percent in every NARUC plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5 percent composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table II, and were used to re-calculate the annual depreciation expense for Rocky Lake. It is recommended that the company use depreciation rates by individual NARUC category, as delineated in Table II.

As a matter of comparison, the new depreciation rates would result in a composite rate of 4.8 percent for the present mix of plant assets.

TABLE I
 SUMMARY OF WATER TESTING COSTS
 5 POINTS OF ENTRY
 PARTICIPATION IN MAP

Contaminant	Cost per test	No. of tests per 3 years	total 3 year cost	Annual expense
Bacteriological	15	72	1080	360
Inorganics	240	5	1200	400
Secondary Inorganics	120	5	600	200
Radio-chemicals (5/4yr)	55	3.75	206	70
Phase II & V				
Nitrate	25	15	375	125
Nitrite	15	5	75	25
Asbestos (6/9 yr)	180	2	360	120
Ba, Cn, F, Ni (V)	87	MAP*		
VOC	220	MAP		
Pesticides/SOC/Unregulated				
EDB & DBCP	160	MAP		
Group 1 pesticides	150	MAP		
Group 2 pesticides	200	MAP		
Group 3 herbicides	200	MAP		
Group 4 α benzo pyrene/adipate esters	360	MAP		
Group 5 carbamate pesticides	180	MAP		
Endothall	180	MAP		
Diquat	180	MAP		
Glyphosate	180	MAP		
Dioxin	600	MAP		
Lead & copper	25	24	600	200
MAP FEES (annual)				1,425
TOTAL				\$2,925

* MAP is the DEQ Monitoring Assistance Program

TABLE II
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (percent)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

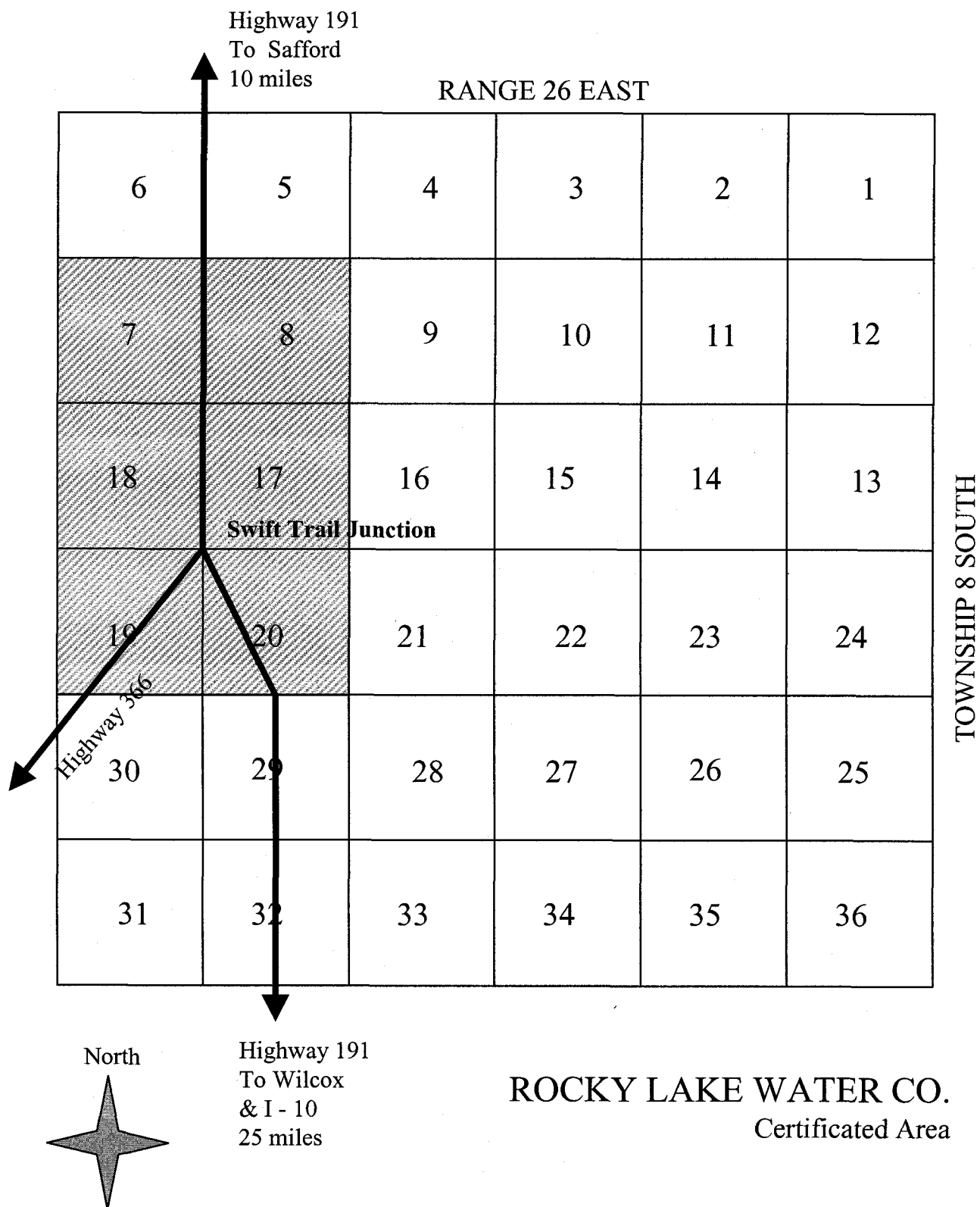
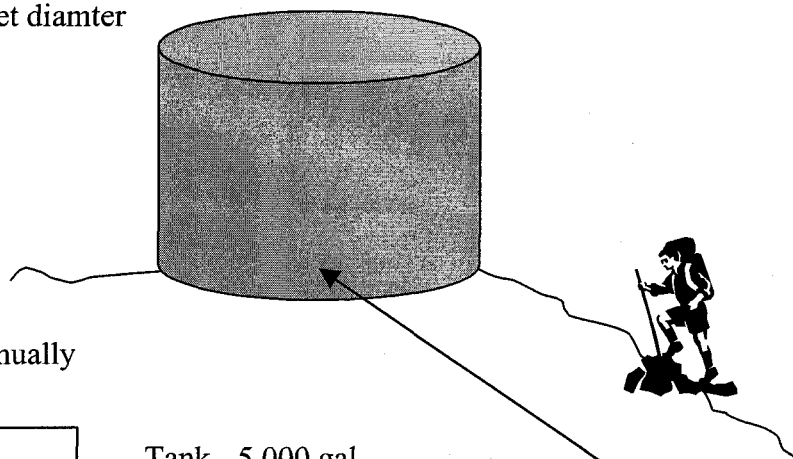
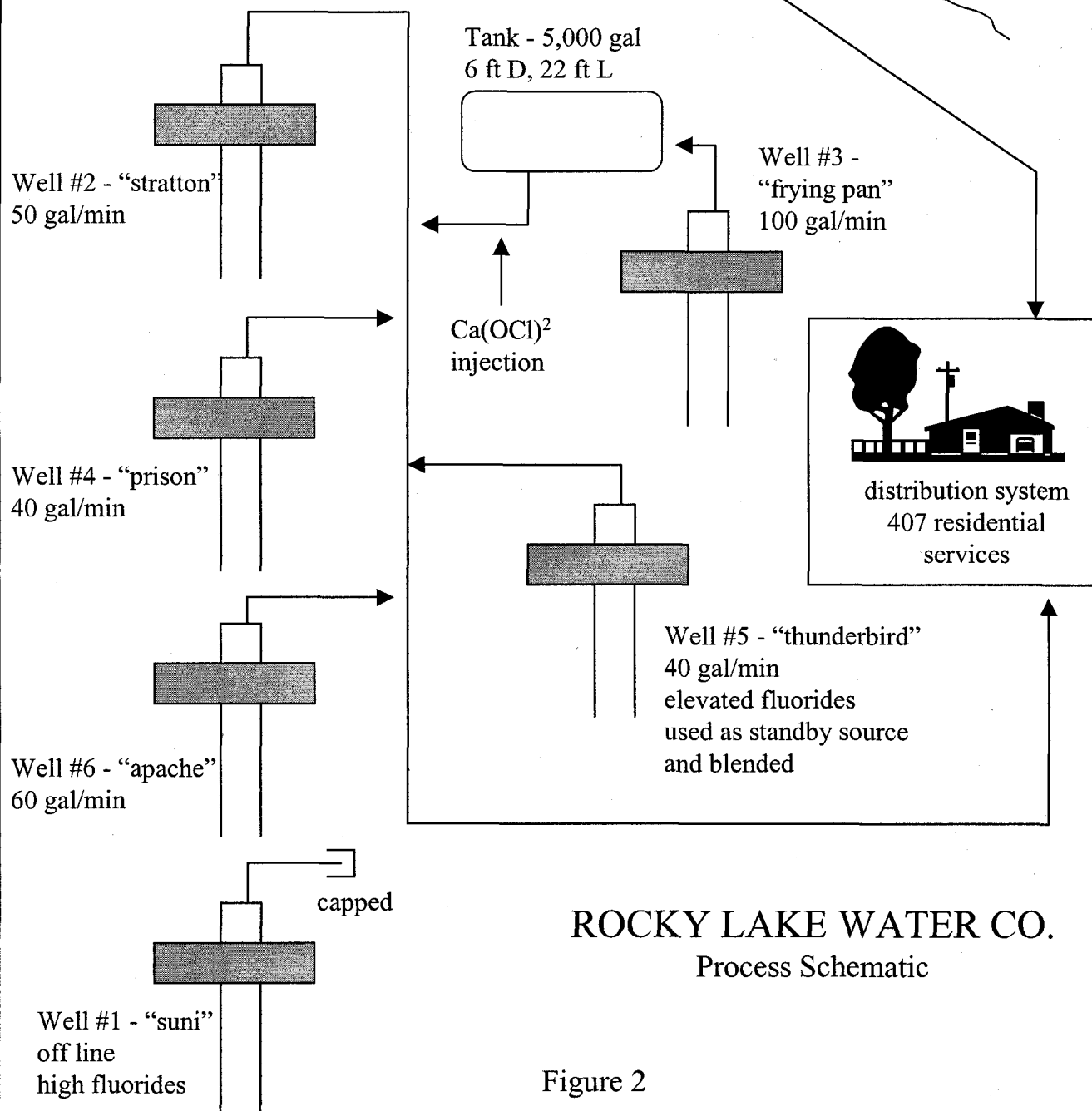


Figure 1

200,000 gallons elevated storage
32 feet high, 33 feet diameter



All wells are controlled manually
or by timers



ROCKY LAKE WATER CO. Process Schematic

Figure 2

065

ORIGIN



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WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCUMENT CONTROL

Mr. Fred T. Wilkinson
Rocky Lake Water Company
P.O. Box 2899
Gilbert, Arizona 85299

RE: ROCKY LAKE WATER COMPANY - APPLICATION FOR A RATE INCREASE
DOCKET NO.: W-01498A-01-0223

Dear Mr. Wilkinson:

In reference to your rate application received on March 14, 2001, this letter is to inform you that your application has met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103. The filing is in compliance with the Arizona Corporation Commission's requirements as of April 13, 2001 per section R14-2-103.B.7 of the Arizona Administrative Code. Your utility has been classified as Class D.

Barring any substantial amendments to the filing or extraordinary events the Staff Report or Testimony regarding this application should be docketed on or about June 27, 2001, and a Commission Decision rendered on or before August 28, 2001.

The Staff person assigned to your application is Elena Zestrijan. Elena can be reached at (602) 542-0831, or toll free at (800) 222-7000, extension 2-0831 if you have any questions or concerns.

Sincerely,

Claudio M. Fernandez
Manager, Revenue Requirement
Utilities Division

CMF:enz

cc: Docket Control Center, Eleven Copies

Arizona Corporation Commission
DOCKETED

APR 16 2001

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